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SUBJECT: JAPANESE GOVERNMENT TO REVIEW PROPOSED BAN ON
ONLINE OTC DRUG SALES

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1. (SBU) Minister Yoichi Masuzoe has ordered a review of the Ministry of Health, Labor, and Welfare (MHLW)'s February 6 ordinance that would ban Internet and mail order sales of most over-the-counter (OTC) drugs. The review was ordered within hours of the provision's announcement following complaints it would seriously inconvenience consumers, particularly the elderly and those in rural areas. Minister Masuzoe has convened a panel of 19 members, including stakeholders who support and oppose the measure, to discuss the merits of the ban. The panel is due to meet by the end of February.

2. (SBU) The ordinance, as originally issued, would require nearly all OTC drugs to be sold at face-to-face retail locations, e.g., pharmacies, as a means of ensuring consumers' safety. Certain medicines with low health risks could continue to be sold online and by mail order. The measure would come into force in June 2009 when the revised Pharmaceutical Affairs Law is slated to take effect. Under the revised law, nonprescription medicines will be classified into three groups based on the risk of side effects. Mail order and online sales will be allowed only for those Class Three items deemed to have the lowest risk of side effects.

3. (SBU) Since a draft of the measure was released for public comment last fall, those for and against the ban have remained far apart. The Japan Pharmacists' Association and organizations representing those who have suffered from drug side effects insist face-to-face sales are essential in ensuring consumer safety. However, some observers note online competition has hurt pharmacy sales.

4. (SBU) Online retailers argue the ban creates difficulties for those who are not able to go to pharmacies. Internet retailer Rakuten along with Yahoo have submitted 300,000 signatures of those supporting mail order and online sales. Internet economy advocates also criticized the move to restrict this type of transactions, saying direct action would be better for addressing consumer safety concerns. The GOJ's Council for the Promotion of Regulatory Reform also opposed the ban, asserting it would pose problems for consumers. The association of pharmaceutical companies dealing in traditional herbal medicines submitted comments opposing the ordinance as well. Chinese herbal medicines are traditionally sold via mail order, but will be labeled Class Two under the ordinance.

5. (U) Online sales of OTC drugs amounted to an estimated

USD 68 billion in 2004, according to the Japan Online Drug Association. Including catalog and mail order, sales were estimated to total USD 289 million.

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